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ABSTRACT

This document is intended to provide business leaders, policymakers, and others with information about the operation and value of six work support programs designed to help low-income parents obtain the assistance needed to enter a job, retain employment, and better provide for their families' needs. The six programs profiled are as follows: the Earned Income Tax Credit; child care; Food Stamps; health care; Temporary Assistance for Needy Families, and child support. The document begins with a discussion of the lack of a single national structure or location where low-earning parents can access work support programs. Next, principal differences between the six programs with respect to the following dimensions are summarized: who funds the benefit; who administers the benefit; who is eligible for the benefit; length of eligibility; and whether the benefit is an entitlement or its availability is limited by funding. The remainder of the document presents profiles of each program. Each profile contains information on the following topics: the program's history, current size/scope, and differences in the program's administration and structure in individual states; the program's impacts on financial security and job retention; and program participation. The names and addresses of 16 organizations offering publications on the 6 work support programs profiled are appended. (Contains 86 references.) (MN)

MAKING ENDS MEET

Six Programs That
Help Working Families
and Employers



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A GUIDE FOR BUSINESS LEADERS AND POLICYMAKERS

Nisha Patel • Mark Greenberg • Steve Savner • Vicki Turetsky June 2002

CLASP

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CE 083 732

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TABLE OF CONTENTS

<i>Introduction</i>	<i>1</i>
<i>Principal Features of Work Support Programs</i>	<i>2</i>
<i>Earned Income Tax Credit</i>	<i>4</i>
<i>Child Care</i>	<i>6</i>
<i>Food Stamps</i>	<i>8</i>
<i>Health Care</i>	<i>10</i>
<i>Temporary Assistance for Needy Families: Cash Assistance and Other Supports</i>	<i>12</i>
<i>Child Support</i>	<i>14</i>
<i>Conclusion</i>	<i>17</i>
<i>Appendix: Resources</i>	<i>19</i>
<i>References</i>	<i>23</i>

INTRODUCTION

During the 1990s, welfare reform placed a strong emphasis on expecting low-income parents to work. At the same time, other federal and state programs were created or expanded to assist families in which parents had low earnings. Amidst a strong national economy, there was a dramatic increase in employment among low-income parents in the last decade. However, parents often entered jobs in which earnings were not sufficient to meet basic family needs — or even to cover the basic costs of working. Thus, federal and state “work supports” — such as the Earned Income Tax Credit (EITC), child care, Food Stamps, health insurance, Temporary Assistance for Needy Families (TANF), and child support — have become increasingly important in the national effort to encourage and support employment and to help low-earning families make ends meet. The availability of such benefits makes it more possible for a parent to enter a job, to retain employment, and to better provide for family needs. Because these benefits help workers retain jobs, they, in turn, reduce turnover and reduce costs for businesses. As a result, work supports benefit *both* working families and employers.

Unfortunately, however, families who are eligible for these work support programs often do not know they are eligible, do not know how to apply, cannot easily apply due to administrative complexity, or are hesitant to apply because of the stigma or the sheer difficulty of the processes involved. As a result, leaders in and outside of government are turning their attention to what can be done to improve participation in the complex structure of work supports.

Improving participation in these programs is challenging because there is not a single, national structure of work supports for low-earning families. Some aspects, such as the Earned Income Tax Credit, are uniform across the country. In other instances, such as the Food Stamp Program, there is a basic national framework with some options and variations across states. The federal government provides the majority of funding for health care coverage, child care subsidies, and child support services for low-income families, but there is extensive variation among states in the details of such programs. In the welfare block grant structure (TANF), each state, and sometimes each locality, has wide discretion in use of funds to provide cash assistance and other services, such as transportation or emergency assistance, for low-income families.

Moreover, just as there is not a single national structure, there is no single location where a low-earning parent may go to learn about the full range of benefits for which herⁱ family might qualify.

i While eligible individuals for all of the programs outlined in the paper may be either female or male, we have used the feminine throughout the paper.

A parent may find that eligibility rules vary, that the necessary documentation in order to be approved to receive benefits varies, and that it is difficult or impossible to apply for or maintain eligibility without taking time off work in order to do so. In addition, working parents who are immigrants may face additional restrictions on access to some federally-funded work support programs.

For all these reasons, there is much interest in efforts to find better ways to link working parents with work supports. With this publication, we hope to take a first step by providing information for business leaders, policymakers, and others about how these programs work, the value of these programs, and reasons for low participation among eligible working families. This guide provides general background on six work support programs: the Earned Income Tax Credit, child care, Food Stamps, health care, Temporary Assistance for Needy Families, and child support. For each, we offer a brief overview description of the program, information about how it helps promote family financial security and employment retention, and evidence about barriers to participation among eligible workers.ⁱⁱ The Appendix offers resources for business leaders and policymakers about where to go for more information about strategies to encourage participation in each program. A companion document prepared by the Welfare to Work Partnership provides examples of efforts by employers to help link families with needed supports.ⁱⁱⁱ

PRINCIPAL FEATURES OF WORK SUPPORT PROGRAMS

Publicly-funded work supports vary on five key dimensions, which are summarized in the table on the next page: (1) who funds the benefit; (2) who administers the benefit; (3) who is eligible for the benefit; (4) length of eligibility; and (5) availability of the benefit (i.e., whether the benefit is an entitlement to all who are eligible or whether availability is limited by funding). The implications of these variations are that no single government agency is responsible for all benefits and that two workers with the same earnings may not be eligible for the same benefits. Eligibility will depend on family income, family composition, and other factors.¹

ii This document focuses on the EITC, child care, Food Stamps, health care, cash assistance and other supports under the TANF block grant, and child support, but does not purport to cover all of the benefits and services of significant importance to low-earning working families.

iii The companion document will be available on-line at <http://www.welfaretowork.org>.

KEY DIMENSIONS OF WORK SUPPORT PROGRAMS

Benefit	Who Funds?	Who Administers?	Who's Eligible?	Length of Eligibility?	Availability?
Earned Income Tax Credit (EITC)	Federal government Some states & localities provide state/local EITCs	Federal government for federal EITC State/local governments for others	Working people with low/moderate incomes	No time limit	All eligible workers
Child Care	Federal & state/local governments Most funding is federal	State/local government or private contractors Tribes	Families with children Income eligibility set by state or tribe, not above 85% of state median income for federally-funded child care	Set by state or tribe	Limited by available funds Estimated only 12-15% of eligible families received assistance from principal federal state program in 1999
Food Stamps	Federal government funds benefits States share in administrative costs	State/local government	Households with incomes below 130% of the federal poverty level	No time limit for families with children and for the elderly 3 months within 36 months for unemployed, able-bodied adults, if not engaged in work program	All eligible households
Health Care (Medicaid and SCHIP)	Federal & state government	State government	Varies by state, but at least: • Children below 100% of poverty • Children under 6 below 133% of poverty • Very low-income parents	No time limit, other than for Transitional Medicaid Assistance	All eligible individuals
TANF Cash Assistance	Federal & state/local government	Generally, state/local government Tribes	Set by state or tribe	60 months for federal assistance Shorter in some states and in some tribal TANF programs	Varies by state or tribe
Other TANF-Funded Services	Federal & state/local government	Generally, state/local government Tribes	Set by state or tribe	Set by state or tribe	Varies by state or tribe and service
Child Support Services	Federal & state/local government share the cost of services	Generally, state/local government Tribes	Children who are owed child support Mandatory participation by TANF, Medicaid, and foster care recipients Others may apply regardless of income	No time limit	All eligible children

EARNED INCOME TAX CREDIT

EITC Program Description

The Earned Income Tax Credit (EITC) puts cash directly into the pockets of working families. The EITC is a tax credit for working people who earn low or moderate incomes. The EITC is refundable, so in addition to reducing the tax burden on workers, it can also supplement wages. Even workers whose earnings are too low to owe income tax (but who still pay payroll taxes for Social Security and Medicare purposes) can receive the EITC. The EITC is usually claimed on an annual basis when filing federal income tax returns, but workers raising children can elect to receive a portion on an advance payment basis. The federal government funds and administers the EITC. Employers administer advance payments through the payroll process.²

Single or married people who worked full time or part time at some point in the year can qualify for the EITC, depending on their income. Workers who were raising one child in their home and had family income of less than \$28,281 in 2001 may be eligible for an EITC of up to \$2,428 in 2002. Workers who were raising two or more children in their home and had family income of less than \$32,121 in 2001 can receive an EITC of up to \$4,008. Workers who were not raising children in their home but were between ages 25 and 64 on December 31, 2001, and had income below \$10,710 can receive an EITC of up to \$364.³ In 1998 (the year for which the most recent data are available), \$31.6 billion was spent on the EITC — \$2.2 billion to reduce regular income taxes, \$2.4 billion to reduce other taxes, and \$27 billion refunded to taxpayers.⁴ For tax year 2000 EITC claims, the average claim amount was \$1,667, according to preliminary data from the Internal Revenue Service. (This average includes childless worker claims, which are substantially lower amounts than claims for workers with children.) A preliminary average for workers with children was reported at \$1,962.⁵

Fifteen states have also instituted EITCs based on the federal credit. Nine states — Colorado, Kansas, Maryland, Massachusetts, Minnesota, New Jersey, New York, Vermont, and Wisconsin — and the District of Columbia offer refundable credits. Oklahoma will begin offering a refundable tax credit effective in tax year 2002. Five states currently offer *nonrefundable* credits: Illinois, Iowa, Maine, Oregon, and Rhode Island. Indiana also offers a refundable credit, but it is not modeled on the federal credit.⁶ Montgomery County, Maryland, and Denver, Colorado, have also enacted local EITCs.

The Link Between the EITC and Financial Security

The EITC helps lift working families out of poverty by supplementing wages. In fact, in 1999 the EITC lifted more children out of poverty — about 2.6 million children in 4.8 million families — than any other government program.⁷ For example, a single parent working 35 hours per week year-round earning \$8.00 per hour would have pre-tax earnings of \$14,000. She would have a payroll tax of \$1,071 and no income tax, for a net income of \$12,929, well below the 2001 poverty line for a family of three, which was \$14,630 (see the table opposite for the 2002 federal poverty guidelines). However, the worker in this example would qualify for an EITC of \$3,816, bringing her income to \$16,745. In addition, she may qualify for a \$400 refund from new provisions of the Child Tax Credit effective in 2001, which enables workers to receive as much as \$600 per child as a refundable credit even if they do not owe income tax.⁸ Research has shown that recipients of the EITC use the money they receive to make ends meet, but also to invest in savings and education.⁹

2002 Federal Poverty Guidelines

Size of Family Unit	100% of Poverty
1	\$8,860
2	\$11,940
3	\$15,020
4	\$18,100
5	\$21,180

Source: *Federal Register*, Vol. 67, No. 31, February 14, 2002, pp. 6931-6933. The poverty guidelines are issued each year by the U.S. Department of Health and Human Services. The poverty guidelines and multiples of the poverty guidelines are used for determining financial eligibility for some work support programs. For example, eligibility for the Food Stamp Program is limited to families below 130% of poverty.

The Link Between the EITC and Job Retention

There is evidence that the EITC has substantially increased work among single mothers. Researchers have shown that, even prior to welfare reform, the number of single mothers with children in the workforce rose significantly when the EITC was expanded. When the amount of the EITC available to those with two or more children was substantially increased, the EITC was linked to large increases in employment among single mothers. There is also some evidence to suggest larger employment increases in states that have their own EITCs.¹⁰

EITC Program Participation

Close to 20 million individuals and families receive the EITC.¹¹ Research estimates have indicated that about 80 percent of workers eligible for the EITC receive it.¹² National 1999 survey data from the Urban Institute found that about 64 percent of low-income parents were familiar with the EITC and about 43 percent of low-income parents reported that they received the EITC.¹³ Although some non-participation may be due to lack of awareness about the EITC, some of the other reasons that have been suggested for non-participation include: not filing federal income taxes due to fear of disclosing immigrant status, not having filed taxes in some time, not filing taxes due to owing child

support, distrusting information provided by employers, and believing the credit is too small to justify filing.¹⁴

Ninety-five percent of those who do receive the credit take it as a lump sum tax refund, as opposed to through advanced payments. Nearly 6 million people who are eligible to claim the advanced EITC do not. One reason use of the advanced payment option is not more common may be that workers and employers are unaware of it. Another reason suggested for low participation in the advancement payment option is the unsteady nature of low-wage jobs, which makes it difficult to keep the necessary forms on file with employers.¹⁵ Research also indicates that many families prefer the "forced savings" of the lump sum refund, which allows for major purchases or asset accumulation.¹⁶

CHILD CARE

Child Care Program Description

Every state and some Native American tribes operate child care subsidy assistance programs for low-income families. Most often, funds are used to provide families with "vouchers" intended to cover all or part of the cost of care from private providers. Less often, states contract with particular providers to purchase "slots" for eligible children. Funding is limited, so the availability of child care subsidy assistance varies among states and communities.

The majority of the funding for child care subsidies comes from the federal government through the Child Care and Development Fund (CCDF) and through the Temporary Assistance for Needy Families (TANF) block grant (which may be used for many purposes, including child care assistance). In order to receive the full amount of a state's allocation of CCDF funds, the state must contribute a specified level of state funding, through a combination of "maintenance of effort" and matching requirements. Total federal and state CCDF and TANF spending on child care grew from about \$4 billion to \$9 billion between FY1997 and FY2000.¹⁷

States design their child care subsidy programs and administer them, or they give counties the authority to administer or contract the program out to a private entity. Federal law gives states the flexibility to set income guidelines for child care assistance, provided that CCDF funds may not be used for families with incomes higher than 85 percent of the state median income. States may set priorities for assistance among income-eligible families. As of March 2000, the income eligibility level for a family of three ranged from \$17,352 in South Carolina to \$44,328 in Alaska. At that time, only four states (Alaska, Hawaii, Maine, and New Mexico) had set their state income eligibility levels at 85 percent of state median income.¹⁸

The Link Between Child Care and Financial Security

Child care subsidies can make a substantial contribution to a family's financial well-being. In an analysis of child care subsidies in six states, the Urban Institute found that for a single parent with two children working full time (35 hours per week) at the minimum wage, child care subsidies substantially freed up family income that could be used to meet other needs. The value of the subsidy in the six states ranged from about \$175 to \$350 per month.¹⁹ In addition to research on the effect of child care on family financial security, the body of research since 1996 linking high quality early education to improved child outcomes — especially for disadvantaged children — has grown. Several studies have found a connection between the quality of early education experiences and later outcomes, including cognitive measures and educational attainment,²⁰ which may impact children's success in the workforce as adults.

The Link Between Child Care and Job Retention

Child care subsidy programs attempt to address issues of cost, but they may also assist parents in accessing higher quality and more reliable child care. Research has shown that the cost, quality, and reliability of child care arrangements impact mothers' decisions to work. Increased availability of child care and early education programs has been linked to increased probability of single mothers working.²¹ Some studies also indicate that center-based child care arrangements tend to be more reliable than informal arrangements with family and friends, and that more formal arrangements are linked to better employment retention for parents.²²

Child Care Program Participation

The need for child care among working families has grown as the number of single mothers who work has increased. Labor force participation by single mothers with children under six and incomes less than 200 percent of the federal poverty level grew from 44 percent in 1996 to 55 percent in 1999.²³ In 1996, 1.8 million single mothers with children were working, as compared to 2.7 million employed single mothers in 1999.²⁴ The number of children receiving child care subsidies increased from approximately 1 million children in an average month in 1996 to 1.8 million in 1999. However, even with this increase, the U.S. Department of Health and Human Services estimated that only 12 percent of 14.5 million children potentially eligible under the maximum federal income guidelines received CCDF assistance in 1999.²⁵ A CLASP review of studies of families leaving welfare found that in the states examined less than 50 percent of welfare leavers were accessing child care subsidies and in many states less than 30 percent were accessing subsidies.²⁶ Potential reasons for low participation include lack of awareness about eligibility; state waiting lists for subsidies, which may discourage families from applying; a preference for informal child care arrangements; administrative

barriers, such as complicated and time-consuming application processes and procedures; language barriers; and stigma associated with receipt of public benefits. In addition, high co-payments can make subsidy use unaffordable for some families.²⁷

FOOD STAMPS

Food Stamp Program Description

Food Stamps provide assistance to low-income families so they can purchase food necessary to maintain a nutritionally adequate diet. Food Stamps come in the form of coupons or electronic benefits transfer (EBT, similar to a debit card) and may only be used for the purchase of food. As of October 2001, 43 states and the District of Columbia had operating Food Stamp EBT systems.²⁸ By October 2002, all states will be required to provide benefits through EBT. The federal government pays 100 percent of the cost of benefits in the Food Stamp Program, and states share in the administrative costs. However, states administer the program. Federal spending for benefits and administration costs of the Food Stamp Program for FY2001 was approximately \$17.8 billion.²⁹ The Food Stamp Program is governed by federal rules, and U.S. citizens and certain legal immigrants with incomes below 130 percent of poverty are eligible. There is no time limit on Food Stamps for families with children and for the elderly. However, unemployed, able-bodied adults with no children are limited to three months of benefits within a 36-month period unless they are working 20 hours per week or participating in a qualifying job training program.³⁰ The amount of Food Stamps a household receives depends primarily on household size, income, and housing costs. Through September 2002, the maximum monthly benefit for a family of three with no countable income is \$356.³¹ In FY2001, the average monthly benefit was \$75 per person and about \$174 per household.³² The average working family on the Food Stamp Program received almost \$200 per month in FY1999. States are required to process Food Stamp applications within 30 days of receipt. For extremely poor applicants, states are required to process applications within seven days of receipt.³³

The Link Between Food Stamps and Financial Security

A CLASP review of studies of families who have left welfare for work found that up to one-third of these working families faced food insecurity marked by hunger.³⁴ Not only do Food Stamps combat hunger, but, like other work supports, Food Stamps increase disposable income for low-earning families. Even after taking into account the EITC, a family of four with a full-time, year-round minimum wage worker will fall short of the poverty line by 25 percent if the family does not receive Food Stamps. Food Stamps increase the typical annual purchasing power of such a family by 39 percent or \$3,696.³⁵

The Link Between Food Stamps and Job Retention

Because the amount of Food Stamps a family receives is reduced gradually when a parent leaves welfare for work, Food Stamps can help keep income stable as the family makes the transition. Food Stamps support work because benefits are only reduced 24 to 36 cents for every additional dollar a worker earns. Under a state option, working families who receive Food Stamps can increase their earnings and continue to receive Food Stamps for up to three months without any reduction at all.³⁶ This option has the potential to help workers stay employed during the critical first few months of a new job.

Food Stamp Program Participation

In FY2000, the Food Stamp Program served about 7.3 million households and 17.2 million individuals each day.³⁷ Working families accounted for 42 percent of families with children who received Food Stamps in 1999 (the most recent data available), up from 27 percent in 1993.³⁸ However, participation in the Food Stamp Program has been decreasing since implementation of welfare reform. The participation rate among eligible individuals fell from 74 percent in 1994 to 57 percent in 1999.³⁹ During the same period, the participation rate among eligible working families fell from 57 percent to only 43 percent.⁴⁰

An Urban Institute study of families leaving welfare found that former welfare recipients left the Food Stamp Program at higher rates than families who had not been on welfare and that most Food Stamp leavers had incomes low enough that they were still eligible for Food Stamp benefits. Families in the study who left welfare joined other low-income working families who have historically had low rates of participation in the Food Stamp Program.⁴¹ A study by the Manpower Demonstration Research Corporation (MDRC) in four major urban areas found that welfare caseworkers terminated the Food Stamp benefits of individuals who had their cash assistance cut off when they failed to appear for redetermination of their cash assistance eligibility. Attending redetermination appointments is likely to be difficult for working families given that offices are generally not open during evening or weekend hours. The MDRC study also concluded that working individuals may not understand that nonattendance will result in loss of Food Stamps because they may not even be aware that they can receive Food Stamps in the first place. Caseworkers did not routinely inform individuals early on that they might be eligible for Food Stamps when they left welfare for work.⁴² Additional research has also shown that confusion among families and caseworkers about eligibility rules and lack of awareness about eligibility among families account for lack of participation in the Food Stamp Program.⁴³ Finally, research indicates that many eligible non-participating families underestimate the amount of Food Stamp benefits for which they are eligible.⁴⁴

HEALTH CARE

Health Care Program Description

Medicaid is the principal publicly-funded health insurance program for low-income people. The federal government and state governments jointly fund Medicaid, with the federal government paying half or more of the costs. Eligible persons include three basic groups: parents and children, the elderly, and individuals with disabilities. Each of these groups must fall below income and asset eligibility levels established by states within federal guidelines. Rules among states vary widely, but, at a minimum, states are required to provide coverage for children under age 6 in households up to 133 percent of poverty (\$19,977 for a family of 3 in 2002) and children under age 18 in households up to 100 percent of poverty (\$15,020 for a family of 3 in 2002). Beginning in October 2002, states will be required to cover all children under age 19 in households up to 100 percent of poverty. Currently, states must also provide Medicaid to certain very low-income parents, with eligibility levels varying among the states. Eighteen states provide Medicaid benefits to parents with incomes above 100 percent of poverty.⁴⁵ The 1996 welfare reform law required states to provide Transitional Medicaid Assistance for up to 12 months for many families who would otherwise lose Medicaid due to increased earnings from employment. States may also use Medicaid funds to pay premiums for employer-sponsored coverage, which can allow both parents and children to maintain coverage.

The State Children's Health Insurance Program (SCHIP), enacted in 1997, targets uninsured children under age 19 in families below 200 percent of poverty who are not eligible for Medicaid or covered by private insurance. SCHIP is a federal block grant program that requires a state match. States have the option of using SCHIP funds to broaden their Medicaid programs, to create separate state SCHIP programs, or to do both.⁴⁶ As of January 2002, 40 states had expanded income eligibility for children in families with incomes up to 200 percent of the federal poverty level or higher (equal to \$30,040 for a family of three in 2002).⁴⁷

The Link Between Health Care and Financial Security

Access to health insurance benefits can enhance financial well-being by reducing the amount of money a family must spend on health care. According to a national survey, while only 26 percent of uninsured families reported being able to save money for the future, 58 percent of insured families reported being able to do so. While only 9 percent of uninsured families indicated they had invested in the stock market, 41 percent of insured families said they had done so. The same survey found that 39 percent of uninsured families reported having problems paying for medical bills, compared to only 18 percent of insured families. Similarly, 36 percent of uninsured families reported problems with

credit or collection agencies, compared to only 16 percent of insured families. Forty percent of uninsured families surveyed reported that if they decided to purchase health insurance, they would have to cut living expenses such as food, rent, and utility bills.⁴⁸

The Link Between Health Care and Job Retention

Research indicates that starting out in a job with benefits, specifically health insurance, is a key factor linked to job retention for women transitioning from welfare to work. A study of women leaving welfare for work found that those who began working in jobs that offered health insurance worked 77 percent of the following two years, while those without health insurance worked only 56 percent of the time.⁴⁹ Another recent study found that those working full time with employer health benefits had an 80 percent chance of working 18 consecutive months, while those without benefits had only a 52 percent chance.⁵⁰

Health Care Program Participation

Medicaid covers approximately 36 million individuals, including children, the elderly, people who are blind and/or otherwise disabled, and people who are eligible to receive federally-assisted income maintenance payments.⁵¹ While most Medicaid *expenditures* are for elderly and disabled individuals, most Medicaid *recipients* are children or parents of children.⁵² Approximately 4.6 million children were enrolled in SCHIP in 2001.⁵³ Although nearly all low-income children are now eligible for Medicaid or SCHIP, 24 percent remain uninsured. Seventy-one percent of low-income uninsured children are part of working families.⁵⁴

Participation in the Medicaid program among families with children has declined since implementation of the 1996 welfare law. These declines have been partially offset by children's coverage through Medicaid eligibility expansion and the enactment and implementation of SCHIP. Enrollment among nonelderly, nondisabled adults and children declined by between 5.3 and 7 percent between 1995 and 1997.⁵⁵ While enrollment declined among both adults and children, the declines for adults were considerably greater (10.6 percent among adults compared to 2.7 percent among children), according to the Urban Institute.⁵⁶

Part of the reason for the decline was the significant drop in Medicaid receipt among families leaving welfare. One factor has been state administrative errors, including failure to determine whether families are eligible after leaving welfare and failure to make accurate determinations of whether families are working when they leave welfare.⁵⁷ An MDRC study revealed that caseworkers did not routinely

inform individuals early on that they might be eligible for Medicaid when they left welfare for work.⁵⁸ Another factor may be the complexity and restrictiveness of Transitional Medicaid rules.⁵⁹

There have also been declines in Medicaid participation among eligible families who have never been on welfare. Much of this decline has been due to improper state implementation of the program. States are required by law to coordinate their Medicaid and SCHIP programs, but they have taken a mix of approaches in doing so. Some are well-coordinated, while others are much more fragmented. Lack of coordination between programs can pose a barrier to families with multiple children who may qualify for different health insurance programs based on their ages or other eligibility criteria. When asked about why they are not participating in Medicaid, families identify the complexity and burden of the eligibility process,⁶⁰ lack of knowledge that their children were eligible,⁶¹ and stigma entailed in applying for the program and in dealing with health care providers.⁶² However, more recent evidence indicates that almost every state has now taken steps to simplify the application and enrollment process, particularly for children.⁶³ In addition, survey research indicates that the vast majority of parents of both Medicaid-enrolled and -eligible uninsured children believe Medicaid is a good program (94 percent and 81 percent respectively).⁶⁴

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES: CASH ASSISTANCE AND OTHER SUPPORTS

TANF Program Description

The 1996 welfare reform law replaced the former welfare system with programs that are much more employment-focused. Under the 1996 welfare law, every state and some Native American tribes receive an annual TANF "block grant" — a lump sum of federal funds that can be used to provide cash assistance and other supports for low-income families. Overall, federal TANF block grant funds are set at about \$16.5 billion each year. In order to receive its allocation, a state must also spend a specified level of state funding for low-income benefits and services; this state "maintenance of effort" requirement totals approximately \$10-\$11 billion nationally. Each state or tribe uses its funds to operate a program of cash assistance for families with children. There is a five-year time limit on the use of federal funds to provide assistance (subject to limited exceptions), and states and tribes must ensure that a percentage of participating families are working or engaged in work-related activities. States and tribes have very broad discretion in deciding which families are eligible and the level of assistance to be provided to eligible families. Typically, benefits are low. In January 2001, in the median state, the benefit level for a family of three with no other income was \$379 per month.⁶⁵ When a

participating parent gets a job, some states phase out benefits very rapidly, others do so gradually, and others continue some level of cash assistance so long as family earnings are still very low.⁶⁶

In addition to providing basic cash assistance, a state or tribe may use its TANF block grant funds to provide other kinds of benefits and services. For example, a state might choose to use its funds to provide transportation assistance for some period of time after a parent enters employment. The state might provide bonuses to families for entering a job or for retaining a job for some period of time. The state might also use its TANF funds to provide case management, counseling services, or training for families who have entered employment. While benefits are often structured as "transition" benefits for families who were receiving assistance before they got a job, a state can also use its funds more broadly to help low-income families who have never received welfare assistance.⁶⁷ For example, many states have spent significant amounts of TANF funds on child care subsidies. Another way states may use TANF dollars is to help fund the refundable portion of state Earned Income Tax Credits. In addition, a state might leave many choices about how funds are spent to counties or local areas, so that the benefits available from TANF funds may vary significantly among areas of the state.

The Link Between TANF and Financial Security

The main focus of state TANF programs has been to move families from welfare into work. States often provide continuing access to cash assistance and other services after a family enters employment. Many states now use TANF funds to provide wage subsidies to low-earning families. For example, in January 2000, a family of three that had been receiving cash assistance and entered a job with earnings of \$1,000 per month could be eligible for some level of wage subsidy in 27 states; after six months of employment, the family could still be eligible for some level of wage subsidy in 18 states.⁶⁸ These wage subsidies, as well as TANF-funded state EITCs, help lift families out of poverty.

The Link Between TANF and Job Retention

State TANF programs seek to increase employment among families receiving assistance, and many states impose requirements on participants to engage in job search activities. States have used TANF funds to provide job placement and job readiness services, and, to a limited extent, job training services. States have also used TANF funds specifically to provide job retention and post-employment follow-up services. For example, TANF funds can be used to provide counseling and employee assistance services and to provide training for supervisors or job coaches in private industry on how to work with newly-hired welfare recipients who have serious employment barriers. TANF funds can also be used to pay for education and training for employees to upgrade skills, which helps them retain jobs and advance to higher-paying jobs.

Research conducted during the 1990s found that providing earnings supplements when parents enter low-earning jobs increases the likelihood that parents will work; moreover, such supplements increase stable employment — the share of time that parents work over a period of time.⁶⁹ In addition, research suggests that the provision of earnings supplements may be particularly important in promoting the well-being of children when parents are employed in low-earning jobs. For example, when gains in earnings were largely or entirely offset by losses in public benefits, researchers generally found little or no evidence of improvements in the well-being of children. In contrast, when programs provided continuing earnings supplements, and entering employment resulted in gains in family incomes, researchers found evidence of improved school performance and better behavior by children in low-income families.⁷⁰

TANF Program Participation

Participation in the state TANF cash assistance programs has fallen sharply in recent years. In 1994, about 5 million families were receiving cash assistance in the program that preceded TANF; by 2001, only about 2.1 million families were receiving TANF cash assistance.⁷¹ Families receiving TANF included about 40 percent of all poor children.⁷² Over one-quarter (28 percent) of TANF recipient families were employed while receiving assistance, although with monthly earnings averaging only \$597.97.⁷³

The number of families receiving one or more services or benefits funded with TANF dollars is considerably greater than the number receiving cash assistance. However, the precise number is not known because there is only very limited federal data about how funds are spent for families other than those receiving cash assistance.⁷⁴

CHILD SUPPORT

Child Support Program Description

Children are eligible for child support when they live apart from a parent because their parents are divorced or were never married. The obligation of non-custodial parents — usually fathers — to help support their children is set through a child support order issued by a state court or agency. Child support orders are established under state income-based guidelines. Although rules vary across states, the amount of child support a family receives is primarily dependent upon the custodial parent's income, the number of children, and the needs of the children. Some states also require non-custodial parents to help pay for child care and medical costs. The child support program provides services to parents to help them obtain child support.

All states and a few Native American tribes operate child support programs. Nearly two-thirds of all child support-eligible families participate in the child support program.⁷⁵ The remaining third of child support-eligible families often have their child support orders enforced through private attorneys and do not use the public program. Some families are required to participate in the child support system, including those receiving TANF assistance, Medicaid, federally-funded foster care, and (at state option) Food Stamps. In addition, child support services are made available to other families on a voluntary basis. Because eligibility for the child support program is not based on financial need, services are available to both custodial and non-custodial parents, regardless of income.

The child support program enforces child support obligations by attaching part of the income of non-custodial parents and transferring it to their children. More than half of child support is collected through the employer payroll process, with child support withheld from the paychecks of non-custodial parents. In addition, child support is collected from commissions, bonuses, pension and retirement funds, disability payments, unemployment and workers' compensation, federal and state tax refunds, some types of Social Security benefits, and most other sources of income. The state child support program establishes the legal relationship between unmarried fathers and their children, sets child support orders, and obtains health insurance for the children. Programs in some states also link parents to employment and other services. To help locate parents with child support obligations, employers are required to report information about newly-hired employees to the child support program.

The child support program is jointly administered and funded by the federal, state, and county governments, as well as a few tribal governments. In 2000, total federal and state spending on the child support program was \$4.5 billion.⁷⁶ Program organization varies considerably from state to state. At the state level, the child support program may be housed in the human services agency, the revenue department, the attorney general's office, or in an independent department. At the local level, a state office, a county agency, or a court may operate the program. The role of the courts in setting and enforcing child support orders also varies, with some states using more judicial processes and others using more administrative processes.

In recent years, program performance has improved notably, with collection rates more than doubling between 1995 and 2000. In 2000, the child support program collected a total of \$18 billion in child support. However, families do not receive all of the money collected on their behalf. When families apply for TANF cash assistance, they are required to sign over to the state their rights to child support to help reimburse the state and federal governments for the cost of their welfare benefits. The government keeps most of the support collected for families receiving TANF cash assistance and some of the

support for families who have left cash assistance. Since child support payments are kept by the state while a single parent is on TANF cash assistance, it is only after a family leaves welfare that collected child support translates into an income stream for the family.⁷⁷ Of the \$18 billion collected by the program in 2000, about \$16 billion was paid to families, while \$2 billion was retained by the government as recovered welfare costs.⁷⁸

The Link Between Child Support and Financial Security

Child support can be a critical income supplement for low-earning families. Most single parents do not receive child support. However, when families do receive it, the child support can supplement their earnings and help lift them out of poverty. For example, a single parent with two children with pre-tax earnings of \$14,000 would have net earnings of \$12,929, which is below the 2002 poverty line for a family of three (\$15,020). If she receives child support, the average amount she would receive is \$2,900. The combination of earnings and child support would bring her income to \$15,829, lifting her family above the poverty line.⁷⁹ Child support lifted about a half million children out of poverty in 1996 (the most recent data available), and that number has likely increased in recent years as child support collections have grown substantially.⁸⁰

A number of studies have found a connection between regular receipt of child support and positive child outcomes, such as better educational performance.⁸¹ There is some evidence to suggest that child support has a greater effect on children's educational attainment than income from other sources. This may be due to increased involvement by fathers who pay child support.

The Link Between Child Support and Job Retention

When paid, child support can be a substantial and long-term income source for low-earning families. Child support is complementary to work in that it helps increase low-income single mothers' labor force participation, supplements and stabilizes low earnings, and does not decline when the mother's earnings increase. Research indicates that single mothers who receive regular child support payments are more likely to find work faster and to hold jobs longer than those who do not receive child support. Regular child support payments also are associated with less welfare use and lower rates of welfare return. A Washington state study found that when parents moving from welfare to work received regular child support payments, combined with job training, they found employment even more quickly and were even more likely to retain jobs.⁸²

Child Support Program Participation

Most families in the child support program are low-income working families. Although program eligibility is not based on financial need, nearly 80 percent of families in the program have incomes at or below 250 percent of poverty (\$37,550 for a family of 3 in 2002), while 40 percent are below poverty (\$15,020 for a family of 3 in 2002).⁸³ Forty-six percent of families participating in the child support program are former welfare recipients, 35 percent never received welfare benefits, and 19 percent are current welfare recipients.⁸⁴

About 19 million children — along with their mothers and fathers — participate in the child support program. Of families participating in the program, 42 percent receive child support. One reason why many children of never-married parents do not receive child support is that they lack a child support order, the legal prerequisite to collecting support. Once an order is put in place, 68 percent of families in the program receive child support. Support collected for families in the program who receive it averages \$2,469 per year.⁸⁵ In addition, poor children who do not receive child support are more likely to have fathers who are themselves poor and face barriers to employment that are similar to those faced by poor mothers. However, never-married mothers have experienced a four-fold increase in their child support receipt rate since the child support program's inception.⁸⁶

CONCLUSION

A range of valuable work support programs are available to low-earning working families, which can provide family financial security and promote job retention. However, participation among eligible families in these programs could be improved. As this report demonstrates, the link between work supports and financial security and job retention for working families is clear. The challenge for leaders in government and beyond is to identify more effective ways of improving participation.

The Appendix offers a list of resources for business leaders, policymakers, and others interested in strategies to encourage participation in these programs by working families. It is in the best interest of both employers and policymakers to help strengthen worker participation in programs that encourage job retention, reduce employee turnover, and result in cost savings for businesses.

APPENDIX: RESOURCES

EITC

- Organization:** Center on Budget and Policy Priorities
Publication: *The 2002 Earned Income Tax Credit Outreach Kit*
Website: <http://www.cbpp.org>
- Organization:** Welfare Information Network
Publication: *The Earned Income Tax Credit (Issue Note, April 2000)*
Website: <http://www.welfareinfo.org/friedmanapril.htm>

Child Care

- Organization:** The Welfare to Work Partnership
Publication: *Smart Solutions: Helping Your New Workers Meet Their Child Care Needs*
Website: <http://www.welfaretowork.org>
- Organization:** Welfare Information Network
Publication: *Child Care Subsidies: Strategies to Provide Outreach to Eligible Families (Issue Note, September 2000)*
Website: <http://www.welfareinfo.org/childcaresubsidiesissuenote.htm>

Food Stamps

- Organization:** Welfare Information Network
Publication: *Food Stamp Education and Outreach Working to Provide Nutrition Benefits to Eligible Households (Issue Note, December 2000)*
Website: <http://www.welfareinfo.org>
- Organization:** Food Research and Action Center
Publication: *A Guide to Food Stamp Program Outreach*
Website: <http://www.frac.org>

Health Care

- Organization:** Center on Budget and Policy Priorities
Publication: *Stay Healthy, Start Healthy Campaign Kit*
Website: <http://www.cbpp.org>
- Organization:** Welfare Information Network
Publication: *State Options to Increase Health Insurance for the Working Poor*
(Issue Note, June 2000)
Website: <http://www.welfareinfo.org>
- Organization:** The Welfare to Work Partnership
Publication: *Smart Solutions: Helping Your New Workers Access Health Care*
Website: <http://www.welfaretowork.org>

TANF

- Organization:** Center for Law and Social Policy
Website: <http://www.clasp.org>
- Organization:** Center on Budget and Policy Priorities
Website: <http://www.cbpp.org>
- Organization:** American Public Human Services Association
Website: <http://www.aphsa.org>
- Organization:** Welfare Information Network
Publication: *Promoting Employment Retention* (Issue Note, July 2000)
Website: <http://www.welfareinfo.org/issuenotepromotingemploymentretention.htm>

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Child Support

- Organization:** American Payroll Association
Publication: *APA's Guide to Federal and State Garnishment Laws* (forthcoming, 2002)
Website: <http://www.americanpayroll.org>
- Organization:** Office of Child Support Enforcement
Publication: *The Employer's Desk Guide to Child Support*
Website: <http://www.acf.dhhs.gov/programs/cse/>
- Organization:** Small Business Administration/Office of Child Support Enforcement
Online Course: *Child Support Enforcement and the Small Business Employer: What Every Employer Needs to Know About Child Support*
Website: <http://www.sba.gov/classroom/courses.html>

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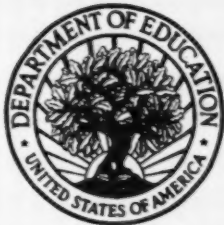
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- 79 Example based on data in the following report: Elaine Sorenson and Chava Zibman. March 2000. *Child Support Offers Some Protection Against Poverty*. Washington, DC: Urban Institute.
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